

**PRAIRIE LAKES
AREA EDUCATION AGENCY 8**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2011

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PRAIRIE LAKES AREA EDUCATION AGENCY 8

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
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Board of Directors

Dean Saunders	President	2015
Bruce Bahnson	Vice President	2013
Rhonda Christensen	Member	2011
Ramon Fisher	Member	2015
Todd Lundgren	Member	2015
Gary Meyer	Member	2011
Gary Astor	Member	2013
Linda Twait	Member	2013

Agency

Jeff D. Herzberg	Chief Administrator	2013
Ginger Hoffman	Chief Administrator Assistant and Board Secretary	2012
Michelle R. Dowd	Chief Financial Officer and Board Treasurer	2012



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 as of and for the year ended June 30, 2011, which collectively comprise the Prairie Lakes Area Education Agency 8's basic financial statements listed in the table of contents. These financial statements are the responsibility of Prairie Lakes Area Education Agency 8's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 at June 30, 2011, and the respective changes in financial position for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2011 on our consideration of Prairie Lakes Area Education Agency 8's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 9, 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prairie Lakes Area Education Agency 8's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnarr & Company, LLP

Fort Dodge, Iowa
December 14, 2011

PRAIRIE LAKES AREA EDUCATION AGENCY 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prairie Lakes Area Education Agency 8 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$29,105,162 in fiscal 2010 to \$25,162,257 in fiscal 2011. The decrease in General Fund revenues was attributable to 1) an increase in State and Local revenue of \$753,714 and 2) a decrease in federal American Recovery and Reinvestment Act (ARRA), dollars in the amount of \$4,991,434 in fiscal 2011. Included in these reduced federal American Recovery and Reinvestment Act (ARRA) dollars, were \$3,767,572 of funds that flowed through the Agency to local school districts, thus leaving a \$1,223,862 reduction in funding for direct use in the Agency.
- General Fund expenditures decreased from \$27,908,149 in fiscal 2010 to \$23,119,421 in fiscal 2011. The decrease in General Fund expenditures was attributable to 1) the reduced expenditures of \$3,767,572 in fiscal 2011 pertaining to federal American Recovery and Reinvestment Act (ARRA) dollars that flowed through the Agency to local school districts, and 2) the Agency reduced personnel costs by \$705,529 in preparation for the funding cliff in fiscal year 2012.
- The Agency's General Fund balance increased from \$4,683,063 at the end of fiscal 2010 to \$6,559,748 at the end of fiscal 2011. The reason the General Fund balance increased was due in large part by the Agency's requirement to utilize all of its federal American Recovery and Reinvestment Act (ARRA) dollars prior to June 30, 2011. Federal requirements made it necessary to use these funds or they would revert back. In utilizing these funds, the Agency was able to carry over State funds in preparation for its share of the Area Education Agency system-wide \$20 million cut in State funding passed by legislators for fiscal year 2012. This equates to a reduction in funds of \$1,486,315 in fiscal 2012.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Prairie Lakes Area Education Agency 8 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT

- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

Reporting the Agency's Financial Activities

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has one kind of fund:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds and 3) the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Prairie Lakes Area Education Agency 8's net assets at the end of fiscal 2011 totaled approximately \$9.9 million. This compared to approximately \$7.8 million at the end of fiscal 2010. The analysis that follows focuses on the net assets and changes in net assets.

		CONDENSED STATEMENT OF NET ASSETS	
		Governmental Activities	
		2011	2010
Assets			
Current and other assets	\$	10,419	\$ 7,715
Capital assets		5,625	5,704
Total assets		16,044	13,419
Liabilities			
Long-term liabilities		2,685	2,563
Other liabilities		3,448	3,068
Total liabilities		6,133	5,631
Net Assets			
Invested in capital assets, net of related debt		3,695	3,549
Restricted		203	346
Unrestricted		6,013	3,893
Total net assets	\$	9,911	\$ 7,788

The Agency's combined net assets increased by 27%, or approximately \$2,122,538, from fiscal 2010. The increase occurred primarily in governmental activities as a result of an increase in federal revenues in fiscal 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis details the changes in net assets resulting from the Agency's activities:

	CHANGES IN NET ASSETS	
	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Charges for service	\$ 1,044	\$ 947
Operating grants and contributions	12,681	17,436
General revenues:		
Property tax	5,861	5,804
State foundation aid	6,222	5,525
Unrestricted investment earnings	14	31
	<u>25,822</u>	<u>29,743</u>
Program expenses:		
Instruction	641	615
Student support services	10,007	14,530
Instructional staff support services	7,823	7,989
General administration	824	839
Business administration	1,011	912
Plant operations and maintenance	959	868
Central and other support services	2,347	2,547
Long-term debt interest	87	97
Total program expenses	<u>23,699</u>	<u>28,397</u>
Increase in net assets	2,123	1,346
Net assets beginning of year	<u>7,788</u>	<u>6,442</u>
Net assets end of year	<u><u>\$ 9,911</u></u>	<u><u>\$ 7,788</u></u>

Property tax and state foundation aid account for 47% of the total revenue while operating grants and contributions from local, state and federal sources account for 53% of the total revenue. The Agency's expenses primarily relate to instruction and student and instructional support services, which account for 78% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$25,822,097 and expenses were \$23,699,559. In a difficult budget year, the Agency was able to provide services needed by local school districts and remain within budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL FUND ANALYSIS

As previously noted, Prairie Lakes Area Education Agency 8 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$6,763,062, above last year's ending fund balances of \$5,029,224. The primary reason for the increase in combined fund balances in fiscal 2011 was due to an increase in State and Local revenues, and the American Recovery and Reinvestment Act (ARRA) funds.

Governmental Fund Highlights

- The Agency's increasing General Fund financial position is the product of an increase in State and Local revenues and the American Recovery and Reinvestment Act (ARRA) funds.
- The General Fund balance increased from \$4,683,063 to \$6,559,748 due, in part, to the additional funds received from State and Local revenues and the American Recovery and Reinvestment Act (ARRA) funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget once to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts.

The Agency's total revenues were \$1,878,585 less than total budgeted revenues, a variance of 7.27%. Total expenditures were \$3,612,423 less than budgeted, a variance of 15%.

A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the Agency had invested \$5,625,354, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net decrease of approximately \$78,833 from last year. This decrease was primarily due to the disposal of media vans and media library resources.

Prairie Lakes Area Education Agency 8 had depreciation expense of \$305,672 in fiscal 2011 and total accumulated depreciation of \$4,368,940 at June 30, 2011. More detailed information about capital assets is available in Note 3 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-Term Debt

At June 30, 2011, the Agency had \$1,930,000 in long-term debt outstanding compared to \$2,155,000 at June 30, 2010. At June 30, 2011, the Agency had \$755,172 in compensated absences compared to \$912,705 at June 30, 2010. More detailed information about the Agency's long-term liabilities is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and since controlled funding is driven by the number of students enrolled, decreased funding from the state is anticipated for the upcoming fiscal year.
- The Agency has been notified to expect little or no increase in Federal IDEA funding for the immediate future.
- The Agency began construction of its new central facility located in Pocahontas, Iowa in October of 2005. Funding of the \$2,490,000 project was financed by the sale of lease certificates. Repayment of principal and interest began in December of 2005 and will continue until June of 2025 with an average yearly payment of \$183,091.
- The 2003 Legislature reduced the Agency's fiscal year 2003/2004 state aid by \$1,306,673 and also imposed a \$995,807 fund balance reduction. The 2004 and 2005 Legislatures extended the \$1,299,808 and \$1,433,562 reductions to fiscal years 2004/05 and 2005/06, respectively. While a portion of the reduction was restored for 2006/07 to an amount of \$1,160,503, for 2007/08 to \$956,134, and for 2008/09 to \$751,765. For 2009/10 the prorate reduction to the budget is \$838,852. For 2010/11 the prorate reduction to the budget is \$751,765. For 2011/12 the prorate reduction to the budget is \$565,974. In 2011/12, the Agency's State aid is being cut by \$1,486,315 for a total reduction in funding of \$2,052,289. These are permanent losses of revenue that the Agency does not have any means to recoup. These reductions have impacted the Agency's ability to provide services to schools and will continue to do so in future years.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer's Office of Prairie Lakes Area Education Agency 8, at 1235 5th Ave South, Fort Dodge, Iowa 50501.

BASIC FINANCIAL STATEMENTS

PRAIRIE LAKES AREA EDUCATION AGENCY 8

PRAIRIE LAKES AREA EDUCATION AGENCY 8**Exhibit A****STATEMENT OF NET ASSETS****June 30, 2011**

	Governmental Activities
Assets	
Cash and pooled investments	\$ 5,828,798
Receivables:	
Accounts	394,319
Due from other governments	3,933,005
Inventories	55,026
Capital assets (net of accumulated depreciation)	5,625,354
Net OPEB asset	208,000
Total assets	\$ 16,044,502
Liabilities	
Payables:	
Accounts	\$ 1,139,032
Salaries and benefits payable	2,156,269
Deferred revenue:	
Federal	81,676
Other	71,109
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation	105,000
Compensated absences	145,329
Early retirement obligation	173,976
Portion due or payable after one year:	
Certificates of participation	1,825,000
Early retirement obligation	435,867
Total liabilities	6,133,258
Net Assets	
Invested in capital assets, net of related debt	3,695,354
Restricted for:	
Debt service	203,314
Unrestricted	6,012,576
Total net assets	9,911,244
Total liabilities and net assets	\$ 16,044,502

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

STATEMENT OF ACTIVITIES

June 30, 2011

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 640,968	\$ 282,346	\$ 374,437
Student support services	10,007,306	-	10,970,945
Instructional staff support services	7,823,371	574,488	1,240,469
General administration	823,607	-	-
Business administration	1,010,803	-	-
Plant operations and maintenance	959,370	-	-
Central and other support services	2,347,079	187,600	95,031
Interest on long-term debt	87,055	-	-
Total governmental activities	\$ 23,699,559	\$ 1,044,434	\$ 12,680,882

General Revenues:

Property taxes, levied for general purposes
State Foundation aid
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities		Total	
\$	15,815	\$	15,815
	963,639		963,639
	(6,008,414)		(6,008,414)
	(823,607)		(823,607)
	(1,010,803)		(1,010,803)
	(959,370)		(959,370)
	(2,064,448)		(2,064,448)
	(87,055)		(87,055)
	(9,974,243)		(9,974,243)
	5,861,112		5,861,112
	6,221,570		6,221,570
	14,099		14,099
	12,096,781		12,096,781
	2,122,538		2,122,538
	7,788,706		7,788,706
\$	9,911,244	\$	9,911,244

PRAIRIE LAKES AREA EDUCATION AGENCY 8

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

		Special Revenue	
		Special Education Instruction	
	Assets	General	
Cash and pooled investments		\$ 5,567,484	\$ 58,000
Receivables:			
Accounts		394,319	-
Due from other governments		3,788,107	144,898
Due from other funds		107,258	-
Inventories		55,026	-
Total assets		\$ 9,912,194	\$ 202,898
Liabilities and Fund Balances			
Liabilities:			
Payables:			
Accounts		\$ 1,137,986	\$ 1,046
Salaries and benefits payable		2,061,675	94,594
Due to other funds		-	107,258
Deferred revenue:			
Federal		81,676	-
Other		71,109	-
Total liabilities		3,352,446	202,898
Fund balances:			
Nonspendable:			
Inventories		55,026	-
Restricted for:			
Debt service		-	-
Categorical funding		77,781	-
Media materials		576,026	-
Committed for:			
Compensated absences		145,329	-
Early retirement obligation		609,843	-
Unassigned		5,095,743	-
Total fund balances		6,559,748	-
Total liabilities and fund balances		\$ 9,912,194	\$ 202,898

See Notes to Financial Statements.

Exhibit C

Nonmajor		Total	
\$	203,314	\$	5,828,798
	-		394,319
	-		3,933,005
	-		107,258
	-		55,026
<hr/>		<hr/>	
\$	203,314	\$	10,318,406
<hr/>		<hr/>	

\$	-	\$	1,139,032
	-		2,156,269
			107,258
	-		81,676
	-		71,109
	-		3,555,344
<hr/>		<hr/>	

	-		55,026
203,314		203,314	
-		77,781	
-		576,026	
-		145,329	
-		609,843	
		5,095,743	
<hr/>		<hr/>	
203,314		6,763,062	
<hr/>		<hr/>	
\$	203,314	\$	10,318,406
<hr/>		<hr/>	

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Exhibit D

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total governmental fund balances (page 12) **\$ 6,763,062**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$9,994,294 and the accumulated depreciation is \$4,368,940. 5,625,354

Long-term liabilities, including capital leases, compensated absences, and early retirement obligations, are not due and payable in the current period and, therefore, are not reported in the funds. (2,685,172)

The Net OPEB Asset is not due and receivable in the current period and, therefore, not reported in the government funds. 208,000

Net assets of governmental activities (page 10) **\$ 9,911,244**

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

	General	Special Revenue Special Education Instruction
Revenues:		
Local sources	\$ 7,144,998	\$ 282,346
State sources	8,288,028	374,437
Federal sources	9,729,231	-
Total revenues	25,162,257	656,783
Expenditures:		
Current:		
Instruction	-	656,783
Student support services	10,216,925	-
Instructional staff support services	7,835,633	-
General administration	811,244	-
Business administration	1,018,588	-
Plant operations and maintenance	894,022	-
Central and other support services	2,343,009	-
Debt service	-	-
Total expenditures	23,119,421	656,783
Excess (deficiency) of revenues over (under) expenditures	2,042,836	-
Other financing sources (uses):		
Transfers in	-	-
Transfers out	(166,151)	-
Total financing sources (uses)	(166,151)	-
Net change in fund balances	1,876,685	-
Fund balances, beginning of year	4,683,063	-
Fund balances, end of year	\$ 6,559,748	\$ -

See Notes to Financial Statements.

Exhibit E

Nonmajor		Total	
<hr/>		<hr/>	
\$	3,057	\$	7,430,401
	-		8,662,465
	-		9,729,231
<hr/>		<hr/>	
	3,057		25,822,097
<hr/>		<hr/>	
	-		656,783
	-		10,216,925
	-		7,835,633
	-		811,244
	-		1,018,588
	-		894,022
	-		2,343,009
	312,055		312,055
<hr/>		<hr/>	
	312,055		24,088,259
<hr/>		<hr/>	
	(308,998)		1,733,838
<hr/>		<hr/>	
	166,151		166,151
	-		(166,151)
<hr/>		<hr/>	
	166,151		-
<hr/>		<hr/>	
	(142,847)		1,733,838
	346,161		5,029,224
<hr/>		<hr/>	
\$	203,314	\$	6,763,062
<hr/>		<hr/>	

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

Net change in fund balances - total governmental funds (page 14) **\$ 1,733,838**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 230,876	
Depreciation expense	(305,672)	(74,796)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (4,037)

Certificates of participation provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of certificate principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments exceeded proceeds. 225,000

Compensated absences and early retirement obligation expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. 157,533

The Net OBEP Asset is not due and receivable in the current period and, therefore, not reported in the government funds. 85,000

Change in net assets of governmental activities (page 11) **\$ 2,122,538**

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Prairie Lakes Area Education Agency 8 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 48 school districts and private schools in a 14-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity:

For financial reporting purposes, Prairie Lakes Area Education Agency 8 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Prairie Lakes Area Education Agency 8 has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements are reported using the economic resources measurement focus and other accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued):

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds that can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, and then unassigned fund balances.

D. Assets, Liabilities and Fund Equity:

Cash and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value and non-negotiable certificates of deposit are stated at cost.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment, and intangibles, are reported in the applicable governmental or business-type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Building improvement	5,000
Vehicles	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Building improvement	15
Vehicles	5
Intangibles	2
Furniture and equipment	10
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for all licensed staff with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Obligation – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned – All amount not included in other spendable classifications.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Restricted Net Assets – In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures did not exceed the amounts budgeted.

Note 2. Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2011 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk: The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 166,912	\$ -	\$ -	\$ 166,912
Total capital assets not being depreciated	166,912	-	-	166,912
Capital assets being depreciated:				
Buildings and improvements	5,839,064	75,917	-	5,914,981
Furniture and equipment	872,859	13,826	-	886,685
Vehicles	95,019	20,060	15,668	99,411
Library books and films	2,817,378	121,073	12,146	2,926,305
Total capital assets being depreciated	9,624,320	230,876	27,814	9,827,382
Less accumulated depreciation for:				
Buildings and improvements	1,625,065	123,612	-	1,748,677
Furniture and equipment	434,914	72,604	-	507,518
Vehicles	60,167	11,275	14,668	56,774
Library books and films	1,966,899	98,181	9,109	2,055,971
	4,087,045	305,672	23,777	4,368,940
Total capital assets being depreciated, net	5,537,275	(74,796)	4,037	5,458,442
Governmental activities capital assets, net	\$ 5,704,187	\$ (74,796)	\$ 4,037	\$ 5,625,354

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ 5,557
Instructional staff support services	104,341
General administration/Building administration	44,786
Plant operations and maintenance	139,713
Central and other support services	11,275
Total governmental activities depreciation expense	<u>\$ 305,672</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Certificates of Participation	\$ 2,155,000	\$ -	\$ 225,000	\$ 1,930,000	\$ 105,000
Compensated absences	129,625	18,462	2,758	145,329	145,329
Early retirement obligation	783,080	-	173,237	609,843	173,976
	\$ 3,067,705	\$ 18,462	\$ 400,995	\$ 2,685,172	\$ 424,305

Early Retirement Obligation:

The Agency offered a voluntary early retirement plan to its employees in previous years; however, this policy ended effective July 1, 2009.

At June 30, 2011, the Agency has obligations to thirty-one participants with a total liability of \$609,843. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$173,571.

Certificates of Participation:

The Agency has sold Certificates of Participation for the acquisition, the remodeling and improvement of, and the installation of furnishings and equipment at the office facility in Storm Lake, Iowa for a total of \$1,500,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The Certificates of Participation were called on December 1, 2010 in the amount of principal of \$125,000 and interest of \$4,000.

The Agency has sold Certificates of Participation for the construction of the office facility in Pocahontas, Iowa, for a total of \$2,490,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 3.5% to 4.35%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 105,000	\$ 79,305	\$ 184,305
2013	110,000	75,368	185,368
2014	115,000	70,968	185,968
2015	120,000	66,080	186,080
2016	125,000	61,580	186,580
Thereafter	1,355,000	302,707	1,657,707
	\$ 1,930,000	\$ 656,008	\$ 2,586,008

Payments for the Certificates of Participation for the Pocahontas facility for the year ended June 30, 2011, including interest total \$183,055.

NOTES TO FINANCIAL STATEMENTS

Note 5. Operating Leases

The Agency has leased various equipment and facilities within the area to support and house the different zones of the Agency. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2011 and September 30, 2016. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2011.

Year Ending June 30,	Amount
2012	\$ 194,969
2013	92,500
2014	86,500
2015	79,000
2016	79,000
Thereafter	-
	<u>\$ 531,969</u>

The total rental expenditures for the year ended June 30, 2011 for all operating leases, except those with terms of a month or less that were not renewed, was \$143,053.

Note 6. Lease of Office Space

The Agency, as lessor, leases 55% of a building as office space to several entities. The lease terms expire in various years through 2016 and range from \$2,500 to \$30,635 per lease annually.

At June 30, 2011 future minimum lease payments receivable under noncancelable operating leases are as follows:

Year Ending June 30,	Amount
2012	\$ 62,255
2013	29,120
2014	29,120
2015	15,392
2016	15,392
Thereafter	-
	<u>\$ 151,279</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Agency is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$941,387, \$930,362 and \$911,423, respectively, equal to the required contribution for each year.

Note 8. Other Postemployment Retirement Benefits (OPEB)

Plan Description The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for retirees and their spouses. There are 242 active and 40 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfounded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 275,000
Interest on net OPEB obligation	(6,000)
Adjustment to annual required contribution	5,000
Annual OPEB cost	<u>274,000</u>
Contributions made	<u>(359,000)</u>
Decrease in net OPEB obligation	(85,000)
Net OPEB obligation beginning of year	<u>(123,000)</u>
Net OPEB obligation end of year	<u><u>\$ (208,000)</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Other Postemployment Retirement Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued) For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the Agency contributed \$2,877,700 to the medical plan and plan members eligible for benefits contributed \$790,334.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2009	\$ 240,000	122.92%	\$ (55,000)
June 30, 2010	240,000	122.92	(123,000)
June 30, 2011	274,000	131.02	(208,000)

Funded Status and Funding Progress As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$2,352,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,352,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,254,213, and the ratio of the UAAL to covered payroll was 17.7%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections for benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5.0% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

NOTES TO FINANCIAL STATEMENTS

Note 8. Other Postemployment Retirement Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions (Continued) Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$603 per month for retirees less than age 65 and \$603 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4.0% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 9. Risk Management

Prairie Lakes Area Education Agency 8 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

REQUIRED SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -- BUDGET AND ACTUAL --**

ALL GOVERNMENTAL FUNDS

Required Supplementary Information

Year Ended June 30, 2011

	Governmental Fund Types Actual	Total Actual
Revenues:		
Local sources	\$ 7,430,401	\$ 7,430,401
State sources	8,662,465	8,662,465
Federal sources	9,729,231	9,729,231
Total revenues	25,822,097	25,822,097
Expenditures/Expenses:		
Current:		
Instruction	656,783	656,783
Student support services	10,216,925	10,216,925
Instructional staff support services	7,835,633	7,835,633
General administration	811,244	811,244
Business administration	1,018,588	1,018,588
Plant operations and maintenance	894,022	894,022
Central and other support services	2,343,009	2,343,009
Debt service	312,055	312,055
Total expenditures/expenses	24,088,259	24,088,259
Excess of revenues over expenditures/expenses	1,733,838	1,733,838
Balance, beginning of year	5,029,224	5,029,224
Balance, end of year	\$ 6,763,062	\$ 6,763,062

See accompanying Independent Auditor's Report.

Budget		Final to Actual
		Variance
Original	Final	Favorable
		(Unfavorable)
\$ 7,010,222	\$ 6,872,306	\$ 558,095
7,945,765	8,757,757	(95,292)
13,270,211	12,070,619	(2,341,388)
28,226,198	27,700,682	(1,878,585)
634,026	649,440	(7,343)
19,415,477	18,162,450	7,945,525
2,652,574	2,713,928	(5,121,705)
902,203	961,092	149,848
1,084,445	1,083,133	64,545
644,904	1,013,061	119,039
2,701,514	2,926,523	583,514
191,055	191,055	(121,000)
28,226,198	27,700,682	3,612,423
-	-	1,733,838
3,984,124	4,065,709	-
\$ 3,984,124	\$ 4,065,709	\$ 1,733,838

PRAIRIE LAKES AREA EDUCATION AGENCY 8
June 30, 2011

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2011, the Agency's expenditures/expenses did not exceed the approved budget.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
Required Supplementary Information**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	July 1, 2008	\$ -	\$ 2,756	\$ 2,756	0.00%	\$ 14,271	19.31%
2010	July 1, 2008	-	2,756	2,756	0.00	13,937	19.77
2011	July 1, 2010	-	2,352	2,352	0.00	13,254	17.75

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 1

**BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2011**

		Debt Service
		<hr/>
	Assets	
Cash and pooled investments		\$ 203,314
Total assets		<hr/>
		\$ 203,314
		<hr/>
		Liabilities and Fund Balances
Liabilities:		
Total liabilities		<hr/>
		\$ -
Fund balances:		
Unreserved:		
Undesignated		203,314
Total fund balances		<hr/>
		203,314
		<hr/>
Total liabilities and fund balances		<hr/>
		\$ 203,314
		<hr/>

See Accompanying Independent Auditor's Report.

PRAIRIE LAKES AREA EDUCATION AGENCY 8**Schedule 2****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2011**

	Debt Service
Revenues:	
Local sources	\$ 3,057
Total revenues	<u>3,057</u>
Expenditures:	
Debt service	312,055
Total expenditures	<u>312,055</u>
 (Deficiency) of revenues (under) expenditures	 (308,998)
Other financing sources:	
Transfers in	<u>166,151</u>
 Excess of expenditures and other financing uses over revenues and other financing sources	 (142,847)
 Fund balances beginning of year	 <u>346,161</u>
 Fund balances end of year	 <u><u>\$ 203,314</u></u>

See accompanying Independent Auditor's Report.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES
BY FUNCTION -- ALL GOVERNMENTAL FUNDS**

For the Last Eight Years

	2011	2010	2009
Revenues:			
Local	\$ 7,430,401	\$ 7,214,831	\$ 7,255,444
State	8,662,465	7,898,189	8,816,888
Federal	9,729,231	14,630,063	10,430,610
Total	\$ 25,822,097	\$ 29,743,083	\$ 26,502,942
Expenditures:			
Current:			
Instruction	\$ 656,783	\$ 629,039	\$ 598,745
Student support services	10,216,925	14,744,364	11,653,983
Instructional staff support services	7,835,633	7,934,751	8,852,222
General administration	811,244	840,582	851,999
Business administration	1,018,588	934,201	1,024,100
Plant operations and maintenance	894,022	886,035	609,018
Central and other support services	2,343,009	2,568,216	2,550,666
Facilities acquisition and construction	-	-	-
Debt service	312,055	242,380	280,624
Total	\$ 24,088,259	\$ 28,779,568	\$ 26,421,357

See accompanying independent auditor's report.

Schedule 3

Modified Accrual Basis

Years Ended June 30

2008	2007	2006	2005	2004
\$ 6,997,952	\$ 6,592,704	\$ 9,443,187	\$ 6,136,669	\$ 5,861,125
8,029,311	6,958,751	6,089,199	6,570,193	6,120,635
9,675,510	9,890,074	9,574,428	8,149,680	7,381,258
\$ 24,702,773	\$ 23,441,529	\$ 25,106,814	\$ 20,856,542	\$ 19,363,018
\$ 600,462	\$ 649,697	\$ 600,311	\$ 733,004	\$ 898,938
16,383,637	13,731,170	12,479,304	10,999,916	9,657,645
2,653,162	3,797,579	3,901,029	4,436,652	1,938,988
773,114	831,913	1,908,045	1,621,130	985,195
733,729	914,375	1,510,205	537,537	1,179,877
671,640	841,481	904,188	526,417	672,402
2,579,110	2,472,812	859,689	860,179	3,753,846
60	308,677	2,199,463	-	-
278,161	886,673	279,652	135,641	133,288
\$ 24,673,075	\$ 24,434,377	\$ 24,641,886	\$ 19,850,476	\$ 19,220,179

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B - 94-142:			
Special Education - Grants to States (IDEA, Part 3):			
Early Childhood Education for the Handicapped - ARRA	84.391	A-RKB1-08	\$ 990,011
Early Childhood Education for the Handicapped	84.027	080908	1,689,018
Early Childhood Education for the Handicapped	84.027	1KB2-08	5,646,897
Early Childhood Education for the Handicapped	84.027	9K2JPDM-08	55,106
Special Education - Preschool Grants (IDEA Preschool)			
Section 619, Age 3-5 - ARRA	84.173	R619-08	131,516
Special Education - Preschool Grants (IDEA Preschool)			
Section 619, Age 3-5	84.173	1011619-08	258,152
Iowa Quality Preschool Program Standards - Section 619			
Preschool, Age 3-5	84.173	037211	1,500
Iowa Quality Preschool Program Standards - Section 619			
Preschool, Age 3-5	84.173	030111	3,630
Iowa Quality Preschool Program Standards - Section 619			
Preschool, Age 3-5	84.173	021811	3,000
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C	84.181	C08-08 (8KC3)	221,831
AEA Statewide System of Professional Development	84.181	035111	19,587
Special Education - Grants to States (IDEA, Part C) - ARRA	84.393A	RC-08	131,553
Miscellaneous 94-142:			
Parent Educator Connection Project	84.027	07408	95,031
Early Childhood & School Age Language for			
Literacy Project	84.027		2,000
Ed Tech ARRA Online/eCurriculum Initiative	84.386		1,539
Secondary Professional Development Grant	84.323A	SPDG-09	37,000
Cognitive Guided Instruction	84.323		39,583
Service Learning Grant	94.004	09SL8	3,537
Technology Literacy Challenge/E2T2	84.318	6TL3	102,260
Title II Part A - Federal Teacher Quality Program	84.367		12,275
Assessment for Learning Work Team of the Iowa Core Curr.	84.369	120709	3,490
Title III ELL/LEP	84.365		203,720
Total U. S. Department of Education			9,652,236

(Continued on next page)

PRAIRIE LAKES AREA EDUCATION AGENCY 8**Schedule 4
(Continued)****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011**

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Health and Human Services:			
Passed-Through Iowa Department of Human Services:			
Medical Assistance Program Title 19 Medicaid Reimbursement:			
Title 19 Medicaid Reimbursement	93.778		\$ 42,838
Part C Infants and Toddlers Reimbursement	93.778		2,850
Temporary Assistance for Needy Families (TANF)	93.558		31,307
Total Department of Health and Human Services			76,995
Total Expenditures of Federal Awards			\$ 9,729,231

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Prairie Lakes Area Education Agency 8 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

PRAIRIE LAKES AREA EDUCATION AGENCY 8



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 (the "Agency"), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II A-11 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
December 14, 2011

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

PRAIRIE LAKES AREA EDUCATION AGENCY 8



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

Compliance

We have audited the compliance of Prairie Lakes Area Education Agency 8 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Agency's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, item III-A-11, to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a significant deficiency.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnurr & Company, LLP

Fort Dodge, Iowa
December 14, 2011

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule of Findings and Questioned Costs Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) A significant deficiency and a material weakness in internal control over the major programs was disclosed by the audit of financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs
 - ◆ Early Intervention Services Cluster:
 - ∞ CFDA Number 84.181 – Special Education – Grants for Infants and Families
 - ∞ CFDA Number 84.393 – Special Education – Grants for Infants and Families, Recovery Act
 - ◆ Special Education Cluster:
 - ∞ CFDA Number 84.027 – Special Education – Grants to States
 - ∞ CFDA Number 84.173 – Special Education – Preschool Grants
 - ∞ CFDA Number 84.391 – ARRA – Special Education Grants to States, Recovery Act
 - ∞ CFDA Number 84.392 – ARRA – Preschool Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Lakes Area Education Agency 8 qualified as a low-risk auditee.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011**

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

II-A-11 Segregation of Duties: One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. We noted that the preparation of the deposit, cash receipts journal, maintenance of accounts receivable subsidiary ledger, general journal preparation and account write-offs are all controlled by one person.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response: We will investigate available alternatives and implement as soon as possible.

Conclusion: Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

All programs displayed on the schedule of expenditures of Federal awards.

III-A-11 Segregation of Duties: The Agency did not properly segregate record keeping and reconciling functions for cash receipts, including those related to Federal programs. See audit-finding II-A-11.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Budget: Expenditures during the year ended June 30, 2011 did not exceed the amount budgeted.

IV-B-11 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011**

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- IV-D-11 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-11 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-11 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes, but were not.
- IV-G-11 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.
- IV-H-11 Certified Annual Report: The Certified Annual Report was certified timely to the Iowa Department of Education.
- IV-I-11 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Scharr & Company, LLP

Fort Dodge, Iowa
December 14, 2011